



HOUSE BUDGET COMMITTEE

Democratic Caucus

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Tax Cut – Not September 11 – Is the Primary Cause of Budget Deterioration

Last week, Mitchell E. Daniels, Jr., Director of the Office of Management and Budget (OMB), testified before the House Budget Committee on the Administration's Mid-Session Review of the budget. His big news was that the ten-year unified surplus has gone from \$5.6 trillion to \$441 billion since Republicans took the White House – a loss of \$5.2 trillion. The projected deficit for 2002 has grown by almost 60 percent since February, from \$106 billion to \$165 billion, and the projected ten-year deficit has grown by \$175 billion since February, causing the government to spend almost \$2.0 trillion of the Social Security Trust Fund surplus over ten years. These numbers would be worse if the Administration were not using implausibly optimistic economic projections.

The Republicans blame this bleak future of deficits not on their huge tax cut of last year but mostly on the cost of responding to September 11. In his opening remarks, Chairman Nussle said, "So the context of today that we find ourselves in is directly related to September 11th..." Director Daniels said, "Nobody told us there would be an attack on September 11th or that it would cost \$21 billion to rebuild New York from it, etc., etc."

The Republican claims are wrong. As shown in the table on page 32, the broadest reasonable total cost of responding to the events of September 11 is less than \$600 billion over ten years (2002-2011), including interest. September 11 thus accounts for less than 12 percent of the total \$5.2 trillion deterioration of the ten-year unified surplus since last year. In contrast, OMB now reports that last year's \$1.5 trillion tax cut accounts for 29 percent of the deterioration of the surplus. Including the additional tax cuts that the Administration is requesting means that the President's total tax agenda accounts for at least one third of the budget's deterioration since he took office, according to his own numbers.

Since the tragedy of September 11, our fiscal situation clearly has changed, but September 11 is not the main cause of our worsening deficit. Despite Republican claims, the tax cut is.